

**Milwaukee County Employees' Retirement System (ERS)**  
**Pension Budget, Audit and Compliance Committee Meeting**

**MINUTES**

**Call to Order:**

Guy Stuller, Chairman, called the Audit Committee Meeting to order at 1:00 pm, on 12-3-09, in the 2<sup>nd</sup> Floor/Commission Room (210) of the Milwaukee County Courthouse, at 910 North 9<sup>th</sup> Street, Milwaukee, WI 53233.

**Roll Call:**

**Board Members Present:**

Guy Stuller  
Dean Roepke  
Keith Garland

**Others Present:**

Gerald Schroeder  
Steve Huff  
Mark Grady  
Dale Yerkes  
Larry Langer

One (1) attorney-client privileged handout was provided to the Audit Committee members and guests:

- Protective Survivorship Option- Forms of Benefit: Reinhart
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**1. Topic: Beneficiary Issues-Larry Langer/Buck**

General discussion took place relating to a number of benefit and beneficiary issues. It was the intent of the committee to explore the actuarial impact on modifying several of our current practices, relating to beneficiaries, contingent beneficiaries and Protective Survivorship Options (PSO) processing. Any recommendations that would come out of our discussions would go to the Board in closed session.

The PSO handout was reviewed to clarify the Ordinance driven language and to relate any modifications to the actuarial impact. Mr. Huff stated that his research found that the only forms of benefit allowed under Ordinance section 201.24(7.1) for the PSO are the options listed; those being options 2 and 3. Other forms of benefit, including a backdrop, are not allowed by the language of that section and section 7.2.

A discussion then occurred relating to whether beneficiaries may be changed by the member after retiring. The actuary indicated that the life benefit is the promise. The actuarial factors used are based on the entire pool of retirees. There are winners and losers. "Losers" are those whose benefit terminates before the member's or the beneficiary's life expectancy is reached. "Winners" are those who receive benefits longer than their projected life expectancy. The pension system uses the savings from the "losers" to offset the cost of the "winners." Allowing a change in beneficiary after retirement with Options 1 and 6 would not have a fiscal impact or actuarial cost. Allowing a change for Options 2 through 5 does have a fiscal impact. The reason is that these options pay benefits to both the retiree and beneficiary, and the benefit is based, in part, on the beneficiary's age and life expectancy. Changing the beneficiary alters the calculation for determining the benefit.

The normal actuarial projections are a form of the "law of average" approach. Allowing a change in beneficiaries during retirement for options 2 – 5 allows for Anti-Selection or adverse selection. As a result, allowing such a change can never be actuarially neutral. Anti-Selection is seldom allowed, because it is not free and requires fiscal supplementation. In those cases where it is allowed, either other benefits have to be adjusted or there have to be increased contributions to pay for it.

A discussion also occurred related to naming multiple beneficiaries at normal retirement. It was pointed out that naming multiple beneficiaries could be actuarially calculated and determined in several ways. If an Option 7 benefit, in the form of multiple beneficiaries, can have an actuarial equivalent, it can be approved by the Board.

Common calamity was discussed as an issue that needs further review. The question is whether a member should be allowed to name a contingent beneficiary in the event the member and the first beneficiary die in a common calamity. There are both legal and policy implications, as well as additional costs.

The committee decided to continue this discussion at the next committee meeting before making any proposals to the Board.

2. Topic: **Cash Flow Funding Approval – Dale Yerkes**

Discussion took place on the need for our current practice of Board approval for cash flow funding. It was proposed that perhaps the cash flow report could be for information only, similar to the retirements granted list. This proposal was rejected based on the need for fiduciary oversight and Board involvement with fiscal matters.

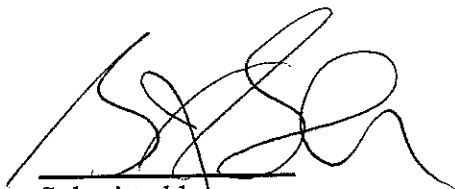
3. Topic: **Revised County Budget Discussion – Dale Yerkes**

Discussion took place on the ERS County Allocation Budget being reduced by \$143,420.00. This reduction was the result of the projected savings from the 12 furlough days, extra health care costs and the 1.6% pension factor reduction from 2%. It was thought that the budget could be approved by the Board, with the assumption that it could be reviewed during the year, if needed.

4. Topic: **2009 Actuarial Report & ERS Financials – Timeline Modification**

The annual process timeline has been moved up one month for the 2009 Actuarial Report and ERS Financials. A good draft of the ERS financials will now be due in early April, 2010. No Ordinance change is necessary and all parties feel that this new timeline does not cause any problem.

5. Topic: **Adjournment: The Audit Committee adjourned at 3:10 pm.**



Submitted by  
Gerald J. Schroeder  
ERS Manager